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ACTION EUR-12

INFO OCT-01 ISO-00 AGR-05 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

L-02 H-01 PA-01 PRS-01 USIA-06 SAJ-01 /089 W

----- 065346

R 281450Z JAN 75

FM AMEMBASSY WARSAW

TO SECSTATE WASHDC 3134

INFO AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

USDOC WASHDC

LIMITED OFFICIAL USE WARSAW 0537

USDOC FOR BEWT

E.O. 11652: N/A

TAGS: ECON, PL

SUBJECT: NEW ONE-TIME POLISH TAXES

REF: WARSAW 7529

1. BEGIN SUMMARY. THE POLISH GOVERNMENT HAS ANNOUNCED
TWO NEW ONE-TIME TAXES, WHICH WILL FALL
PREDOMINANTLY ON WEALTHY PERSONS WHO OPERATE PRIVATE
BUSINESSES OUTSIDE THE SOCIALIZED SECTOR OF THE ECONOMY.
ONE TAX IS LEVIED ON WEALTH; THE OTHER ON INCOMES TO
PRIVATE BUSINESSES. THE NEW TAXES HAVE LOOPHOLES AND
LIMITS WHICH ENSURE THAT THEY WILL FALL ON ONLY A TINY
FRACTION OF THE POPULATION, AND WHICH WILL MITIGATE
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THEIR EFFECTS ON INCENTIVES IN THE PRIVATE SECTOR.
STILL, THERE IS SOME CONCERN THAT THEIR PSYCHOLOGICAL

IMPACT WILL ADVERSELY AFFECT PRIVATE-SECTOR OUTPUT, PARTICULARLY IN AGRICULTURE. THE TAXES ARE NOT EXPECTED TO GENERATE LARGE REVENUES, BUT RATHER APPEAR TO BE MOTIVATED BY THE GOVERNMENT'S IDEOLOGICAL NEED TO DEMONSTRATE THAT POLAND'S GROWING NUMBER OF RICH ARE BEING SOAKED. THE TAXES WOULD ALSO HELP BLUNT CRITICISM OF PRICE INCREASES AND THE LOWER RATE OF WAGE INCREASES WHICH WERE ALLUDED TO IN PREMIER JAROSZEWCZ'S DECEMBER SPEECH TO THE SEJM. END SUMMARY

2. THE WEALTH TAX: THE 1975 BUDGET LAW ESTABLISHES A ONE-TIME TAX ON WEALTH VALUED AT MORE THAN 700,000 ZLOTYS IF IT WAS ACQUIRED AFTER JAN 1, 1954 AND WAS IN THE TAXPAYERS POSSESSION ON DECEMBER 31, 1974. TAXABLE PROPERTY INCLUDES DWELLINGS, BUILDING SITES, FENCED PROPERTY NOT USED FOR FARMING, OTHER BUILDINGS NOT USED FOR ECONOMIC ACTIVITY, AND CARS AND BOATS, EXCEPT FISHING BOATS. NO SUBJECT TO THE TAX ARE IMMOVABLES ACQUIRED DURING THE SETTLEMENT CAMPAIGN IN THE FORMER GERMAN AREAS; LAND AND BUILDINGS PURCHASED BY REPATRIATED PERSONS FOR THE MONEY RECEIVED FOR REPATRIATION; PROPERTIES ACQUIRED IN EXCHANGE FOR EXPROPRIATED PROPERTIES; AND ONE POLISH-MADE CAR OR FOREIGN-MADE CAR PURCHASED THROUGH THE PKO PER PERSON. DEBTS TO SOCIALIZED ENTERPRISES AND MORTGAGE DEBTS ARE TO BE SUBTRACTED FROM THE VALUE OF ASSETS SUBJECT TO THE TAX.

3. TAX RATES RANGE FROM 10 TO 50 PERCENT OF THE PROPERTY VALUE IN EXCESS OF 700,000 ZLOTYS. RETURNS MUST BE SUBMITTED BY FEBRUARY 28, 1975, BUT THE TAX IS PAYABLE IN FOUR EQUAL INSTALLMENTS, THE FIRST OF WHICH IS DUE BY MARCH 31, 1975, AND THE LAST BY OCTOBER 30, 1976. THE TAX IS REDUCED 10 PERCENT IF PAID BY THE END OF 1975. VOIVODSHIPS ARE AUTHORIZED TO GRANT REDUCTIONS AND EXEMPTIONS FROM THE TAX TO THOSE PEOPLE WHO HAVE MADE A LASTING CONTRIBUTION TO THE DEVELOPMENT OF SCIENCE, TECHNOLOGY, CULTURE, OR THE NATIONAL ECONOMY.

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4. ONE-TIME LEVY ON INCOMES: THE BUDGET LAW FOR 1975 ALSO ESTABLISHES A ONE-TIME TAX ON THE OPERATORS OF PRIVATE BUSINESSES. THE TAX RANGES FROM 2,000 TO 30,000 ZLOTYS DEPENDING UPON THE PERSON'S CURRENT STATUS FOR TAX PURPOSES. INDIVIDUAL PRODUCERS OF HANDICRAFTS, FOR EXAMPLE, WILL PAY THE MINIMUM, WHILE PRIVATE FIRMS THAT ARE REQUIRED TO KEEP TRADE BOOKS WILL PAY THE MAXIMUM TAX. THE NEW LEVY IS NOT TO EXCEED 20 PERCENT OF THE COMBINED SUM OF TURNOVER AND INCOME TAXES PAID IN 1974. THE SAME LAW TAXES INDIVIDUALS

WHO OWN GREENHOUSES, CULTIVATE ORCHARDS OR MUSHROOMS, OR RAISE BROILERS, FOXES, OR MINKS. IN EACH CASE, THE TAX IS IN DIRECT PROPORTION TO SOME MEASURE OF THE SIZE OF THE OPERATION; FOR EXAMPLE, 25 ZLOTYS PER ACRE FOR EACH ACRE OF ORCHARD IN EXCESS OF ONE HECTARE. THE MAXIMUM TAX IS 50,000 ZLOTYS. PRIVATE FARMERS WHO BELONG TO COOPERATIVES OR WHO SUPPLY PRODUCE TO THE STATE UNDER CONTRACT WILL RECEIVE TAX DEDUCTIONS. THE TAX IS TO BE PAID IN TWO EQUAL INSTALLMENTS DUE IN MARCH AND JUNE, 1975.

5. COMMENT: THESE TWO TAXES APPEAR MOTIVATED BY IDEOLOGICAL RATHER THAN ECONOMIC CONSIDERATIONS; EDITORIAL COMMENT TO DATE SUPPORTS THIS VIEW. THE TAXES ARE NOT EXPECTED TO GENERATE SIGNIFICANT REVENUES. RECENT PRESS COMMENTS ESTIMATED THAT THE WEALTH TAX WOULD APPLY TO ONLY ABOUT 12,000 FAMILIES, WHILE THE TAX ON PRIVATE-SECTOR INCOMES WOULD AFFECT ONLY 300 TO 4000 INDIVIDUALS. THESE ARE REPORTS THAT VICE MINISTER OF FINANCE KRZAK TOLD THE POLITBIURO MEETING WHEN THESE TAXES WERE APPROVED THAT THE REVENUE WOULD PROBABLY BE LESS THAN 600 MILLION ZLOTYS, A THIRD OF THE FIGURE THAT SOME MEMBERS OF THE POLITBIURO HAD BEEN SUGGESTING. THE MOST SIGNIFICANT REDISTRIBUTION EFFECT IS LIKELY TO BE AN INCREASE IN THE "INFORMAL" INCOMES OF LOCAL OFFICIALS WHO ARE EMPOWERED TO REDUCE OR FORGIVE THE TAX ENTIRELY IF THE PROSPECTIVE TAXPAYER HAS MADE A SUBSTANTIAL CONTRIBUTION TO NATIONAL DEVELOPMENT.

6. SEVERAL EDITORIALS HAVE REASSURED THE POPULATION THAT THE NEW TAXES ARE NOT INTENDED TO REDUCE INCENTIVES
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IN THE PRIVATE SECTOR AND SHOULD NOT BE TAKEN TO INDICATE A CHANGE IN THE GOVERNMENT'S ATTITUDE TOWARD PRIVATE BUSINESSES. NEVERTHELESS, MAY POLES HAVE EXPRESSED CONCERN THAT THE TAXES WILL ACT AS A PSYCHOLOGICAL DISINCENTIVE ON PRIVATE FARMERS WHOSE OUTPUT MAY FALL AS A RESULT; THE EMBASSY BELIEVES THAT, WITH THE POSSIBLE EXCEPTION OF THE UNPREDICTABLE NEGATIVE PSYCHOLOGICAL IMPACT ON PRIVATE AGRICULTURE, PRIVATE PRODUCTION WILL NOT BE SIGNIFICANTLY AFFECTED BY THE NEW LAWS BECAUSE OF THE LIMITS AND LOOPHOLES THEY CONTAIN.

7. IN HIS DECEMBER BUDGET SPEECH TO THE SEJM, PREMIER JAROSZEWCZ EMPHASIZED THE NEED TO SECURE MARKET BALANCE AND INDICATED THAT THE GOVERNMENT IS PREPARED TO CONTROL DEMAND BY SELECTIVE INCREASES OF TAXES AND PRICES, AND A LOWER RATE OF INCREASES FOR WAGES. THE EMBASSY BELIEVES THAT THE NEW TAXES ARE DESIGNED TO

DEMONSTRATE TO THE WAGE EARNERS WHO WILL BEAR THE BURDEN OF ANY SUCH MEASURES THAT THE GOVERNMENT IS SOAKING THE RICH, THE LOOPHOLES AND LIMITS OF THE LAWS ARE INTENDED TO MITIAGATE THEIR EFFECTS ON INCENTIVES IN THE PRIVATE SECTOR.

DAVIES

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CENTRAL GOVERNMENT, TAXES
Control Number: n/a
Copy: SINGLE
Draft Date: 28 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975WARSAW00537
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750031-0711
From: WARSAW
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750112/aaaaakrh.tel
Line Count: 175
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 WARSAW 7529
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 01 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01 MAY 2003 by ShawDG>; APPROVED <16 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NEW ONE-TIME POLISH TAXES
TAGS: ECON, PL
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006